

economic Review

How will the new economic union between Serbia and Montenegro work?

The contents of the document *The Basic Principles for Redefinition of Relations Between Serbia and Montenegro*, endorsed on March 14 2002, has been frequently discussed in terms of the objectives attained by the negotiators and political nature of the new union. Is it a federation or confederation? From the Serbian prospective, is the parity principle at the level of the Union, which Montenegro insisted on, an obstacle for transfer of sovereignty? The answers are clear. The negotiations resulted in political confederation, which is, in itself, an obstacle for transfer of prerogatives in the field of economy to the level of the union.

As for the economic issues, they were discussed in a very advanced stage of negotiations. They were somehow considered as a disturbing factor, in otherwise reconciled political agreement. At the very end of negotiations it became clear that possible solutions in the field of economy are far from "functional federation", which was the basis of the DOS and Coalition for Yugoslavia Platform, which included at least joint customs system, foreign trade regime and currency. The lack of willingness for compromise at the Montenegrin side, promised - and sustained passiveness at the side of Serbia and federation, together with geopolitical caution of the European Union, forced the negotiators to reach out for a reserve option of two completed economic systems which will be harmonized in order to join the European Union.

In the view of economy, there are three questions in respect of the Agreement. Should this solution have been accepted? How will the new union operate? What are the following steps in establishment of a new system?

Many in Serbia think that this, in many points original solution, which starts from a lesser extent of economic integration than the one applied in the European Union, should have been rejected.

Indeed, it is hard to be fully satisfied with the achieved result. It will not be easy to establish and explain a system in which, at least during transitional period, the citizens of the same state, with the same passports, pay different taxes and customs duties, use different currency and trade with securities

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Further Growth of Foreign Currency Reserves

FRY	2001	2001	II 2002	II 2002	II 2002	I-II 2002
Basic Economic Indicators		2000		I 2002	II 2001	I-II 2001
GDP growth*	...	5.5%	...	...	...	...
Industrial Production	...	0.0%	...	4.2%	-4.9%	-5.5%
Montenegro	...	-0.7%	...	13.3%	-17.7%	-16.6%
Serbia	...	0.1%	...	3.8%	-4.0%	-4.7%
Central Serbia	...	-4.0%	...	7.0%	-3.7%	-5.8%
Vojvodina	...	9.2%	...	-2.7%	-4.9%	-2.5%
Average nominal net wage - Serbia in YuD.	5,381**	125%**	7,924	6.58%	...	...
Nominal gross wage - Serbia, in YuD. ¹	...	...	11,410	6.45%	...	...
Real net wage - Serbia, in YuD. ²	5,248**	135%**	7,830	4.79%	...	...
Ratio of consumer basket to average net wage	...	...	1.4	...	...	...
Unemployment Rate - registered ³	27.7%	4.4%	...	...	...	...
Montenegro	...	...	...	...	...	...
Serbia	26.9%	5.0%	27.9%	0.6%	5.3%	4.8%
Current account in USD millions	-624	-87.1%	...	...	...	...
Total balance, in USD millions	-2,834	-58.5%	-205	26.0%	27.8%	6.6%
Export - USD millions	1,903	10.5%	136	7.4%	3.9%	4.1%
Montenegro	178	10.3%	7	-57.9%	-41.6%	-45.5%
Serbia	1,721	10.4%	129	16.6%	7.9%	8.7%
Import - USD millions	4,837	30.3%	341	-15.5%	-17.8%	-4.2%
Montenegro	529	49.3%	26	35.4%	-54.5%	-43.0%
Serbia	4,261	27.9%	311	-18.6%	-11.8%	1.0%
Monetary supply (M1), end of period, YuD bn.	45.16	109.8%	75.40	12.91%	139.9%	136.7%
Cash	15.4	103.4%	30.91	18.58%	196.6%	188.1%
Deposit	29.82	113.7%	44.49	9.39%	111.7%	111.5%
Real money supply, end of period, in DEM mil.	1,483	94.1%	2,453.70	12.73%	135.1%	131.8%
Hard curr. reserves, in mil. USD (end of period)	1,169	123.0%	1,361	4.5%	150.2%	148.5%
Discount rate - monthly level	1.47%	-26.65%	1.00%	-23.08%	-50.00%	-32.60%
Market interest rate, monthly level	4.78%	-18.40%	3.63%	-2.16%	-29.24%	-42.50%
Retail prices - Serbia	...	91.8%	...	1.0%	28.9%	29.7%
Consumer prices - Serbia	...	93.3%	...	1.2%	30.5%	30.5%
Producer prices - Serbia	...	87.8%	...	0.0%	15.4%	15.9%
Average exchange rate - Din/EUR - average	59.45	16.5%	60.10	0.3%	2.0%	2.2%

¹ By the gross wage calculation methodology applied as of June 1, 2001

² Deflator is cost-of-living index

³ Figures refer to December 2001

* Preliminary figures

** According to the previous methodology

Bozidar Djelic

Original solution in many points

Low extent of joint warranty

Acceptance of reality is necessary

under different conditions. In the view of the ideal economic system in one state, this solution is far from perfect. But this agreement shows that our society has finally started to make decisions taking reality into account, as well as comparative advantages of different options. Accordingly, the agreed solution stands as an acceptable compromise solution, through which both Serbia and Montenegro benefit. International community and business world would comprehend the divorce of Serbia and Montenegro, whether we like it or not, as a proof that the Balkans, after all, has not spent its whole disintegrative potential yet. Even after peaceful disintegration of the Czech and Slovak Republics, which occurred in a stable environment, a question of the Sudeten Germans and their rights arose with new energy. The SFRY disintegration itself showed that possible chain reactions in this region do not belong to the pure political theory. Disintegration of Serbia and Montenegro could bring about a realistic risk of reactivation of the issues of Kosovo, Macedonia, Bosnia, as well as "federalization" of Serbia itself, which could occupy the whole space in our social and economic life in the upcoming period. Also, organization of a daily life for many citizens of one republic who live in the other one would cause numerous complications. Finally, the agreement itself enables Serbia, for the first time after 1918, not to be obliged to accept, due to its wish for unity and accompanying understanding for necessary protection of the smaller ones, the officials from other units assigned by preset terms on the basis of unfavorable proportion to administer its resources. Montenegro can keep its completed economic system, while Serbia can finally complete its own.

With joint defense and foreign affairs, ministry for human rights and minorities, the agreement provides for coordination only in contacts with international financial and other institutions, and gradual market harmonization with assistance of the European Union. All the complications related to particular prerogatives unclearly divided between federal and republic level which have been confusing foreign investors and allowed space for abuse, will be finally annulled. Control of Serbian economic border by the clearly established Serbian institutions (customs and inspections), means recognition of reality and allows Serbia to pursue fully its own economic policy, the same as Montenegro. Of course, there is a risk of additional interpretation of the agreement by federal administration which will, in accordance to bureaucratic logic, try to survive. At the same time, it will be important to explain the European Union that economic completion of Serbia does not mean refusal of harmonization, but acceptance of the factual situation and a starting point which will allow faster advance towards the association. Current federal institutions are not likely to harmonize our economic space or to achieve something that could not have been achieved for 15 months by the highest state officials and high representative of the European Union at the end. Bilateral talks between Serbia and Montenegro as two completed economic entities with assistance of the new joint institutions and the European Union have much better chance for success. Only then it would be understood that harmonization suits all, and perhaps to Montenegro most, owing to significance of the access to the Serbian market.

Everything is clear for those who accept the results of negotiations without prejudice. Namely, since the union between Serbia and Montenegro, in the spirit of this agreement, does not have any original income, its expenditure will be covered by the contributions of both units, as is the case in the European Union. With two important functions, defense and foreign affairs, and one ministry for protection of human and minorities' rights, in respect of economy the administration will have one or two ministries which will coordinate Republics in their contacts with international financial and economic organizations and assist in process of internal market harmonization. This requires small number of employees (couple of dozens coordinators and experts) as well as repeal of all the existing federal ministries and secretariats except for defense and foreign affairs (for example, transport and telecommunications, finance, interior, development, science, labor, health, etc) and organizations (the Directorate for propriety, the Information Bureau, stockpiles, etc). Some organizations will formally become Serbian, which is only recognition of their long-standing reality, such as the National Bank and the Payment and Settlement Bureau, customs, foreign exchange inspectorate, commission on securities, etc. This will help avoiding overlap, save the resources and enhance coordination in pursuing economic policy. The issue of division of expenditures between Serbia and Montenegro is to be settled yet, but gross national income share is a logic key applied also in the European Union for similar purposes. In that case, Montenegro would cover about 5% of joint expenditures which would mean YuD 2.6 billion per year according to the 2002 Montenegro Budget. Such a level of financial share must have a decisive effect on the level of participation in terms of personnel.

In the procedural sense, the Ministerial Council of the Union would submit the budget proposal to the governments of Serbia and Montenegro during regular budget procedures. The Parliaments of both member-states will vote for their share of expenditures in the same level of details as for all the other budgetary users. The budget will be realized through republic treasuries, while the internal and external revision of expenditures will be completed by competent republic organs.

It is very important that the agreement provided for very low extent of joint warranty between the republics, in accordance to the initial low extent of integration. The European Union has given guarantees that any halt in negotiations on association in one republic will not affect the other. The talks with international financial institutions (the IMF, the World Bank) will prescribe separate conditions for the two republics, in compliance to the degree of implementation of the reforms. Finally, we have guarantees, although still oral for now, that the so-called "cross-default" clause on the debt payment, which put the liability for payment of the one republic's debt to the other republic in case that the first one do not pay it, will be avoided. All in all, economic union of Serbia and Montenegro will work similarly to successful roommate relations: everyone is responsible for its own conduct and results, while the joint expenses are divided under strictly defined conditions and tight control.

The schedule of establishment of the new institutions is accelerated, but not complicated. After *The Basic Principles* are accepted in all three Parliaments (Serbian, Montenegrin and FRY), which is expected by the end of April, a constitutional commission will be set up on parity principle. This commission is to prepare a Constitutional Chapter, which has to be passed in all three Parliaments by the end of June. At that moment Serbia will carry out all the legal consequences of that act and pass the appropriate omnibus law aimed at transfer of relevant prerogatives, legislation and institution to its level. Simultaneously, the appropriate institutions at the union level will be erected along with preparation for the union election. Then, the Republics may initiate work on new constitutions, without untenable legal or institutional gaps or understatements during the transitional period. The republic constitutions are projected by the end of 2002. Another important schedule is related to negotiations with the European Union. Those negotiations could be speed up now so as to reach the Agreement on Association and Stabilization by the end of 2003 at latest.

In a conclusion it must be underlined that there are enough conditions for the union of Serbia and Montenegro to pass the public opinion test in a three-year period, and to extend and deepen its prerogatives in case that both republics show the will for more unity. But, in all likelihood, in order to reach this integrational scenario it must be started, as in gradual development of the European Union, from the reality, that is, from original sovereignty of the member states. Only in that way the new union will be, in economic sense, truly accepted by the citizens and will allow controlled transfer of sovereignty in the same way as in our joint target group, Europe.

The Political Scene in Serbia

Vladimir Goati

Out of numerous political sweeping effects of the *Perisic affair*, the two seem particularly significant at the moment and therefore will be highlighted in this paper. The first one refers to deepening of the rift between the two former partners in the governing coalition, the Democratic Party of Serbia and (the) rest of DOS, which will be (conditionally) called here *the DOS minus*. The second effect is that the idea of early election for the Republic Parliament, comprehended as an exit from political blind alley not only by opposition parties, but also by many analysts "with no party background" has become topical. When it is about the conflict between the DSS and the other DOS parties with the key role played by the Democratic Party, it should be stressed out that the first signs of the conflict were evident as soon as the coalition was formed (early 2000).

Honestly speaking, conflicts within the DOS had been maintained far away from the public until mid 2001, when the Republic Government issued the Decree which was the basis for Milosevic's extradition to The Hague Tribunal. This decisively prompted the DSS to walk out of the Republic Parliament on August 17, 2001. *This was an event of sweeping consequences, since at that moment the DSS turned from the governing party to the opposition, at the same time indicating factual end of the DOS.* Both the DSS and *the DOS minus* had been refusing to admit this for a long time, which probably resulted from the attempt of both sides not to lose the DOS "capital" among the voters at future elections. As a part of an attempt to maintain the illusion of existence, the DOS Presidency occasionally has had meetings which usually ended up with mute declarations, while the rift between two sides in the real life has been increasingly deep. The DSS challenged important legislative proposals of the governing coalition in the Parliament and publicly criticized the measures and decisions made by the Republic Government, while the other side responded by elimination of the DSS representatives from all significant political functions and publicly condemned the activities of that party.

The Zero Sum Conflict

The DSS's departure from the Republic Government and real, but not yet formal departure from the DOS brought about homogenization of the remained members of that coalition, *the DOS minus*, which has started to confront the DSS publicly more often as a group, not only the DS as it was the case earlier. Under such circumstances, in early March 2002 the DSS made a decision not to attend the DOS Presidency sessions any longer, causing unjustified media hype since that decision made no difference, but only established the fact that the DOS does not exist any more. Open admission, however, that the partnership within the coalition belongs to the past, had a covert impact, too: it eliminated the last respect of the fair play and made the both sides easier in psychological sense to enter into the more merciless mutual quarrels which sometimes exceed the conflicts between the current governing coalition and parties of the former regime, the Socialists and Radicals, in terms of their intensity and sharpness. Conflict between *the DOS minus* and the DSS is not only more intensive, but also more endangering for stability of the newly-established democracy than conflict between the mentioned coalition and ruling parties of the Milosevic regime because the DSS has outstandingly wider support in the electorate than those parties and (maybe even more) because of the DSS strong base in federal institutions. This refers to the President of FRY (the DSS leader at the same time), Vojislav Kostunica who, as the President of the Highest Defense Council, appoints the officials to the most important positions in the military hierarchy upon his own decision or decision made by that Council.

The fact that the DSS is in opposition at the republic level, while pursuing significant share of power at the level of the federation, whereas *the DOS minus* has the reverse position, indicates "incongruence of political status" which enhanced the rift between two parties to evolve into the conflict between the important political institutions and even between federal and republic level of power. This incongruence spontaneously incites both *the DOS minus* and the DSS to tend toward equalization of their status, i.e. taking over the power at the level where they do not have it, which could be achieved only to the detriment of the other side. This is about the zero-sum political game which is, as a rule, sharp and intensive and, therefore, hard to be regulated. The nature of conflict explains the speed of its expansion, namely the fact that the most important political institutions are involved or drawn into it in the short-term sense (the Republic Parliament and the National Security Service of Serbia, the President of FRY, the Military Security Service and General Staff of the Yugoslav Army), which are under the influence of the one of two parties in conflict. *In that way the Perisic affair evolved into "an institutional conflict" which jeopardizes stability of political system in the countries similar to FRY with no generally accepted rules for sorting out such conflicts.*

The described speed in which *the Perisic affair* evolved into deep political crisis, destroyed all illusions on "the great reconciliation" which would put all the dissensions on halt,

"Relocation" from the Government to the opposition

From the affair to the crisis

Between the Scylla and Charybdis

The problem of structural nature

and allow "reincarnation" of the DOS. Instead, it is necessary to assume realistically that *the DOS minus* will remain in power in Serbia, while the DSS will keep on acting as one of the opposition parties. Under such circumstances both the coalition and the DSS will inevitably face very difficult problems.

A Missed Opportunity

The governing coalition with support of 131 deputies (out the total of 250) will have absolute majority in the Parliament, which is enough for legislative activities, but not for change in the Serbian Constitution (1990). And that very Constitution today stands as an insurmountable obstacle, a bed of Procrust, for significant democratic changes. But the change of Constitution requires two-third majority in the Parliament, as well as support of majority of all the citizens of Serbia at the referendum (art. 133). In the view of that fact, change of constitution is not very likely in the near future. According to the experiences of other post-communistic countries, the chance for the Constitution change exists only as long as "the winners are still united by the force of revolutionary principles" (B. Ackerman). That opportunity was missed in our country shortly after the December 2000 election, when the DOS won 176 seats (70.4%) in the Parliament, and now it is hard to project when the similar opportunity will appear. While the current Constitution is still in force, the Republic Government will permanently be between the Scylla and Charybdis, and if acts in accordance to the Constitution, it will find itself limited in many fields or doomed to inaction, while if it does not, it will be stigmatized as usurper.

The DSS will face no less difficult dilemma, too. That dilemma could be formulated as whether every cooperation with the parties of the former regime should be puritanically refused, and consequently, to act as "a sterile opposition" with only 45 mandates to the governing coalition, or to cooperate strategically with those parties so as to pass a vote of censure on the current Government and make it call new election with their assistance and perhaps with support of some of the present members of the governing coalition. The latter is certainly more likely, but bears the danger that the DSS, cooperating with Socialists and Radicals, could turn away a part of their "electoral clients", especially the authentic followers who supported that party prior to October 5 2000, i.e. before invasion of dozens of thousands of new followers. For the authentic followers of the DSS, cooperation with the SPS and SRS is equal to betrayal.

Although frequent mentioning of early Parliamentary election is understandable in such a tensed political situation, there is no doubt that new election would not resolve political problem of Serbia, since that problem is of structural nature and related to the balance of power in the society. The Serbian electorate today is divided into three blocks completely distinct in terms of their political programs, and none of them could count on - according to the results of several empiric surveys on political affiliation and orientation - absolute majority in the Parliament. Each block could win about 20-40% mandates instead. The first block could be described, conditionally speaking, as a democratic-European, symbolized by the governing coalition in the Republic; the second one is a democratic-national, represented by the DSS; and finally, the third block is composed of the former regime parties, primarily the SPS and SRS. Those parties have not accepted the values, principles and institutions of the new system established after the October political changes in 2000, but openly support the idea of restoration of the "old regime". This may apply primarily on the still very influential SPS in which - as opposed to the majority of ex-communistic parties in Southeastern Europe - the orthodox neo-communistic forces still prevail, unready to accept democracy, market and opening toward the world.

The only game

With that in mind, the socialists and radicals represent the un-loyal opposition which does not allow the DSS to confront the ruling coalition with alternative democratic platform with their support. It strongly implies that the party system in Serbia belongs to the "polarized pluralism" (G. Sartori), which is marked, inter alia, with existence of anti-systematic parties and "bilateral opposition" which, due to insurmountable differences, cannot join forces politically. The Serbian party system, estimated to belong to the bilateral pluralism, implies, as a matter of fact, the deep and durable political rift, i.e. inexistence of basic consensus. The election, as important as it is, can not compensate this shortcoming since it provides only the instant cross-section of political orientation of the electorate at that moment.

Only the process of strengthening of pro-democratic orientation in the society, i.e. spreading and strengthening of conviction that "the democracy is the only game in town" could lead to establishment of essential consensus, and at the same time essential transformation or disappearance from the political scene of those authoritarian parties. Of course, this process of crucial importance in the political sphere requires, amongst other things, basic economic metamorphoses which result in increasingly better achievements of the economy, and thus in growth of economic welfare in the whole of society.

Three blocks completely distinct in terms of their political programs

The system of "the polarized pluralism"

Redefinition of relations between Serbia and Montenegro

Zoran Lutovac, MA

After *The Agreement on Basic Principles for Redefinition of Relations Between Serbia and Montenegro* was endorsed on March 14 2002, the most content seem to be the EU representatives and Solana himself. Namely, through this Agreement the EU showed that it has become a political force capable of facing a diversity of problems in its surrounding without direct assistance of the USA, even before the conflicts escalate.

This could "conditionally" appear as the second success of the EU diplomacy in the one-year period, including the agreement which prevented war in Macedonia. This is a success only "conditionally" since it is yet impossible to fully envisage the long-term effects of these agreements, but in the short run, they beyond any doubt significantly contributed to relieving of tension in the region.

In this way the EU has showed its determination to prevent fragmentation in southeastern Europe. Also, this is another move which indicate the major orientation of the EU foreign policy toward the areas in crisis: taking over political and economic responsibility (and more intensive military responsibility is highly likely) for situation on the Balkans, whereby the EU takes actions in an early stage of conflicts with the emphasis being on the policy of *carrot*. Namely, Serbia and Montenegro were promised easier and faster European integration and larger inflow of capital, while as for Macedonia, about US\$ 515 million was collected at the Donors' conference for assistance in reconstruction of this country, reaching almost double amount than expected.

Apart from emotional outpouring of disappointment on both sides and not so much euphoria for survival of the joint country, at least three kinds of criticism should be distinguished: the politically-propagandist one, aimed at repudiating the endorsees of the Agreement or at distinguishing own parties and political groups; the formally-legal one, pointing at all weak points of the Agreement with no regard to internal and external circumstances under which the Agreement was signed (or diminishing importance of those circumstances), and the real-political criticism, which take into account the context in which the Agreement was signed and points at its good and bad sides in respect of the prospects and dangers which would come along with its implementation. The last one seems to be heard least.

The essence of the Agreement

After the series of criticism, the question arises as to what was the alternative to the endorsed Agreement. As a rule, there is no answer to that key question. Or, if there is, it is simplified and plain, with no complex approach to the problem and consideration of both the internal and international context. Yes, it would have been best for us to exist as a federation or as separate states, since these are the pure models. But, the pure models are usually applicable on pure situations, which is the case neither in Montenegro, nor in Serbia.

As the issue of relations between Serbia and Montenegro is not only the internal issue of Montenegro, it is not the internal issue of Serbia, either, and therefore, any reference to the electoral will of the citizens - populism - sounds attractive but is not real. Namely, apart from electoral will of the citizens of Serbia and Montenegro, the EU estimation on whether the first, second or the third solution is a contribution to accomplishment of wider objectives and values important for international community, such as stability in the region or protection of human rights for example, is by all means important. Accordingly, one of the main motives for the EU to stand behind this Agreement is to protect security and stability in the region and to create conditions for easier and safer approach of the states in this region to the European Union. That context implies the EU wish not to press the Montenegrin authorities too hard and leave them no exit, which might prompt unilateral moves toward independence, which would (again) cause tension with unpredictable consequences both within Montenegro and between Podgorica and Belgrade. The Montenegrin authorities should have stayed in game as a potential partner to the reformists in Serbia, a partner with far better image than the current DOS's partner in Montenegro, a partner who, amongst other things, would not be an obstacle to cooperation to the Hague Tribunal.

When it is about significance and scope of this document, apart from everything advanced so far, the following facts should be taken into consideration, as well:

- The Montenegrin citizens are divided in regard to their relation with Serbia. As it was showed in the latest opinion poll carried out by the Institute for Social Science, a slight advantage the pro-independent block used to have gradually melted, leaving those in favor of the joint state slightly ahead at present, which probably resulted from the EU pressure, but also from the DPS dilemma on whether it was necessary to follow the EU suggestions. The citizens were indeed influenced by the arguments in favor of the joint state, i.e. high price of insistence on unilateral independence without agreement with Belgrade and the EU support was emphasized.
- The unresolved relations between Serbia and Montenegro has become increasingly large burden for Serbia, primarily as a constraint for further institutional reforms, and indirectly economic reforms, but at the same time the absolute majority of Serbian citizens support the joint state.

- Unresolved relations between Serbia and Montenegro are the obstacle for our international political and economic relations, i.e. they have bad influence on our overall international position and the EU suggestions were directed toward the attempt to save the joint state, which will facilitate the association of this region into the European integrations for both Serbia and Montenegro, as well as for the EU.
 - Kosovo, which is under international protectorate, is a trouble spot of instability on the Balkans, and thus any new states would additionally disturb security balance in the region, which is also the estimation of those who administer that region.
 - Disregard of the EU suggestions would additionally weaken the already fragile thrust of the West in Serbia (fragile primarily due to insufficient cooperation with The Hague Tribunal) and its position in general.
 - Disintegration of the DOS's united approach to this issue (which could have happened if the problem had been postponed any further) would mean intensification of internal conflicts among the parties in Serbia and departure from the course of economic and institutional reforms to the field of political conflicts with unpredictable consequences.
- As for evaluation of the general scope of this Agreement, the following could be said:
- a) It could contribute to relieving of tensions in relation between Belgrade and Podgorica and thus support stabilization both in this area and in the wider region.
 - b) It could significantly contribute to improvement of international position of Serbia and Montenegro, since it would prove that they joined the civilized states which settle their mutual conflicts in a peaceful way and with mutual consideration, which is a good recommendation for further European integrations and inflow of capital.
 - c) It leaves enough space and time for finding the optimal allocation of sovereignty through democratic procedures, i.e. the form of integration which would lead us through transition as painlessly as possible.

The title of the Agreement itself - *Basic Principles for Redefinition of Relation Between Serbia and Montenegro* points out that this is about an initial document which stands as the basic framework for future legal and institutional arrangements and not a paper aimed at providing all the answers to the issue of relations between Serbia and Montenegro.

By its nature and contents, the Agreement is not comprehensive, but offers the possibility for Serbia and Montenegro to erect a functional union through democratic procedure.

This documents starts from the factual situation, but suggests harmonization of mutual relations and overcoming the existing differences, and is directed toward solution which represents the fastest path toward integration to the EU. Very significant for success of this process is a provision which provides for the EU assistance in implementation of these objectives and monitoring the process on regular basis. Thus, it is predicted that if one member-state finds that the other does not fulfill its obligations deriving from this Agreement, it is entitled to raise that issue in the EU.

A significant provision that minimizes possible shortcomings of the Agreement is the last one which claims that the agreed principles of the Constitutional system will not be an obstacle for fast entrance into the Agreement on Stabilization and Association with the EU.

This Agreement has raised the price of leaving the Union. Namely, it is prescribed that if one member-state leaves the Union, the other one becomes a successor. This is especially important for Serbia in terms of the Resolution 1244, which would be fully applied on Serbia only, meaning that the Kosovo issue is not subjected to the future of the FR Yugoslavia.

In other words, the provision on reconsideration is not stimulating for those who support independent states, although it provides for possibility of calling the referendum in three years. In a three-year period all the advantages the Union would come to light, which would weaken disintegrative forces. Furthermore, the Agreement does not prescribe just any referendum, but the one organized in accordance to internationally accepted standards including a complex procedure, basic consensus within the Union and qualified, convincing majority.

But, regardless of the nature and contents of this Agreement, a successful redefinition of relations between Serbia and Montenegro will depend primarily on the conduct of the actors, i.e. endorsees themselves. Whether the initiated process of redefinition of relations between Serbia and Montenegro will be successful depends, in other words, on whether there are going to be obstructions in the form of "creative interpretation" of the Agreement, or mutual relations will be subjected to the interests of the citizens of Serbia and Montenegro and wider interest of international community, which is interested in stability in the region and prevention of further disintegration of the Balkan region.

The Montenegrin scene after March 14

On the Montenegrin political scene after the Agreement was endorsed, a real Rashomon-show occurred. The Montenegrin President and Prime Minister presented the Agreement as the maximum possible at the moment and expressed readiness to share responsibility for its endorsing with their coalition partner, the Social Democratic Party (the SDP) and the Montenegro Liberal Alliance (the LS CG), assuring them that it is just a step toward their joint objective - independent Montenegro.

On the other side, the SDP and LSCG, after initial shock quite emotionally presented in the Montenegrin media, started new bargaining with the Democratic Socialist Party (the DPS): they threaten to overturn the Government, but at the same time do not reject the possibility to enter the new, "reformed" Government, but of course, with much larger share (the SDP) or key positions in it (the LS CG).

The DPS is obviously ready for huge concessions so as to diminish discontent of these two parties with the Agreement, but above all, discontent of independence-oriented citizens

of Montenegro, which are majority in the structure of followers of this party. An agreement with the parties of the pro-independent block would largely reduce the criticism, and hence the DPS is ready to offer the Liberals a Prime Minister position, coupled with some other important positions, and to their smaller coalition partner even bigger role than it has had so far.

The question arises whether, if they had success with it, they would jeopardize the Agreement itself. Namely, it is true that it starts from the factual situation of large disconnection between Serbia and Montenegro, but nevertheless suggests closer integration of Belgrade and Podgorica. Any new Government of the old partners, at least according to the announcements, would take even stronger pro-independent course, and thus annul direct positive effects and aggravate harmonization and approaching to the EU suggested in the Agreement.

Excessive requirements of the SDP and liberals on the other hand, would force the DPS to call early election or to make an agreement with the pro-Yugoslav block. According to the announcements of the DPS leadership, however, the latter is completely excluded.

The DPS should be concerned about a significant part of voters the party who do not support insisting on independence at any price, finding the EU suggestions useful for the Montenegrin citizens. If the DPS leadership continues strict "independence" rhetoric which could be interpreted as obstruction of the Agreement, that part of voters is likely to refuse supporting it any further, with or without assistance of Svetozar Marovic.

Although the DPS seems not to be in the best position from this prospective, it does not mean that only signing the Agreement caused such a position; that step, in the view of party-only interests, is less evil for the party. If they had refused the Agreement, it would have caused more damage since the party would have broken up on the line of relations with the EU, not with Serbia.

Of course, in Montenegro, like in most countries in the region, any combination is not unexpected, which is proved by numerous examples. Namely, *it is Montenegro where one social democratic and one liberal party are the closest, while two socialist parties are the most distinct*. Is it not an absurdity that the LS CG, a party which have been supporting the idea of independent Montenegro from its very beginning, at the last election won approximately the same number of votes as ten years ago, when about 3/4 of the Montenegrin citizens supported joint state, while at the last election a little over half of the citizens who took part in election voted for the parties which promote the idea of independent Montenegro? Was it not Montenegro where the Montenegrin (the LS CG) and Serbian nationalists (the NS) used to be in coalition, in the golden era of nationalism in this area? Is it not strange that nationalistic romanticism is one of the major features of the social democrats...

But, these are the internal absurdities of Montenegro. There also exist those on the line Podgorica - Belgrade: a coalition of angry opponents from the last election (the DOS and the SNP), while the current opponents are the former allies (the DPS and the DOS), who blame each other for such a situation. Of course, the main reason for unnatural coalition and natural break-up of former allies is related to the issue of redefinition of relations between Serbia and Montenegro. Although Serbia attempted to enter the process of redefinition of relations with low-key approach, so as not to irritate the Montenegrin citizens and authorities, it could not avoid being the target of sovereignty-supporters who were unselectively looking for guilt for insufficient support in hegemonic Belgrade.

It is especially irritating for Belgrade that the Montenegrin pro-independence block put the main guilt for all the misfortunes on Serbian hegemonism, diminishing or even denying the Montenegrin nationalism, with many dismissive qualifications that the change of regime in Belgrade does not change anything and Serbian hegemonism remained untouched. Especially worrying is the fact that the pre-political national-romanticism still precedes all political and life issues.

Political scene in Serbia

There are many problems in Serbia, too, but those of another kind dominate. Namely, the issue of relations with Montenegro does not prevail in Serbia. Serbia even took the step back a bit deliberately, leaving the EU to persuade the Montenegrin leadership of importance of survival of the joint state. There are many "more important" questions that are in focus, such as cooperation with The Hague Tribunal, economic and institutional reforms, battle against criminality and a range of others, which reflect the conflict between the DSS and rest of the parties which still (?) make the DOS. *The Perisic affair*, which put the Agreement in the background, also shows that the Montenegro issue is not a top priority.

Apart from the SPS and SRS which expressed political - propagandistic criticism more aimed at the DOS as the leading political force than at the contents of the Agreement, the Christian Democratic Party of Serbia (the DHSS) was the loudest in Serbia, and first started with a campaign for independent Serbia, which seems to be motivated by the need to distinguish the party and occupy some still vacant space in Serbia. This action aimed to build up and improve the distinguishable identity of this party and to make it a kind of a trademark of the increasing discontent among the citizens in respect of the crisis of relations with Montenegro.

If all the circumstances in Serbia and Montenegro are taken into account, there is an impression that without active monitoring of the European Union, *The Basic Principles...* has no chance for success, that is, establishment of functional state which advances towards European integrations. In other words, although this Agreement requires closer cooperation between Serbia and Montenegro, this cooperation will be hardly implemented unless the provision of the Agreement, which prescribes the EU intervention in case of non-satisfying the obligations from the Agreement by one of the members of the state union, is fulfilled.

Dr Dijana Markovic-Bajalovic

Law Presentation

The Foreign Investments Law

A presentation of the Foreign Investments Law was held in organization of the G17 Institute and the US AID Commercial Law Project at the Faculty of Law in Belgrade on March 11 2002. The judges and senior associates of the commercial courts in Belgrade, Kragujevac, Nis, Novi Sad, Kraljevo, Valjevo, Zajecar, Subotica, Sremska Mitrovica, Uzice, Leskovac and Pancevo were present at the presentation, as well as the representatives of the Higher Commercial Court in Belgrade and the Supreme Court of Serbia.

The gathering was opened by Dr Aleksandra Jovanovic, the Director of the Institutional Reform Department of the G17Institute and a professor at the Faculty of Law, Belgrade. The Foreign Investments Law was presented by professor Dobrosav Mitrovic, President of the Foreign Trade Arbitrage at the Yugoslav Chamber of Commerce and professor at the Faculty of Political Science, and Ilija Drazic, an attorney and a special adviser at the Ministry for international economic relations.

The legislator primarily aimed at simplifying as much as possible the procedure of foreign investments and explicitly establishing the rights and benefits of foreign investors. The Law provides for maximum liberalization of foreign investments. The foreign entities can alone or together with other domestic or foreign investors set up enterprises, buy stocks or shares in the existing enterprises and acquire all the other propriety rights through which they realize their business interests in FR Yugoslavia. This means that foreign investors could freely choose among different forms of foreign investments, such as individual or joint company, contractual joint venture, concessions, portfolio investments, etc. All the fields of economy are open for foreign investments, providing that investments in banks, insurance organizations and free zones are to be legally regulated by special legislation. The only prescribed limitation refers to prohibition of controlling interests of foreign entities in the enterprises dealing with production and supply of arms, as well as prohibition of establishment of enterprises with foreign controlling interests in the areas defined by the law as the restricted zones. In order to set up or invest in such an enterprise, the foreign investor is required to obtain consent of the federal organ in charge of defense.

The foreign investors -enterprise founders have equal rights as the domestic investors. Initiation of an enterprise, i.e. acquisition of propriety rights in the existing enterprise, is registered at the competent commercial court which has official responsibility to advise federal organ in charge of international economic relations on registration of foreign investment for the purpose of evidence. The way of identification of foreign physical and legal entities during registration procedure at court is more precisely defined in Amendments to the Decree on registering in the court register, which have been recently enacted, aimed at facilitating registration of enterprises with foreign capital. A procedure of establishing compliance with the second condition, which is reciprocity with the state of the investor's citizenship is also simplified, since the Ministry of international economic relations is obliged to provide in advance all registration courts with the list of states which we have reciprocal relations with at the beginning of each calendar year. Preparation of this year's list is underway.

Apart from full liberty of foreign investments, the Foreign Investments Law guarantees national treatment, legal security and legal protection in terms of all entitlements and rights acquired through investments, the right of conversion of domestic into the foreign currency, right on bookkeeping in compliance with internationally accepted accountant and auditing standards, right on transfer of profit and property related to foreign investments abroad, as well as the more favorable treatment if predicted under some international or bilateral contract endorsed by both the state of the investor's citizenship and Yugoslavia.

Foreign investors are entitled to liberated exports of goods that represent their investment providing that it is in accordance with environmental regulations, while the customs and tax relieves could be provided for by separate law. The only relief explicitly prescribed by this law is right on imports of equipment on the basis of the foreign investor's investment without customs duties and other contributions. A significant change with regard to the former regulations on foreign investments is that the imported equipment is not required to be new any more. The existing customs regulations do not define the procedure for realization of customs relieves on the basis of contractual foreign investments, and consequently, the future modifications of the Customs Law will cover this legislative vacuum.

In a discussion that followed the presentation, the participants highly commended the Law with regard to deregulation of foreign investments implemented under it. In the short period after the Law entered into force, there were no bigger perplexities related to its application by the commercial courts.

All fields are open for foreign investments

Equal obligations of foreign and domestic investors

Foreign investors are guaranteed the national treatment

Macroeconomic Subject

The Third Operator - Yes or No?

Examples from selected countries

Creators of economic policy in many countries have been aware of the benefits of opening the telecommunications markets, and issued permits to the third and subsequent operators. In majority European countries in which only two mobile operators exist, the economic policy creators plan or are in the middle of the process of introducing the third one. Entry of the third operator is an excellent opportunity for considerable increase of competition in one very dynamic field, as well as for increase in turnover volume and maximization of equipment utilization and profitability.

Market penetration

Entry of the third operator proved that not only the level of market penetration (number of consumers of the mobile telecommunications per 100 inhabitants) continues to grow, but also grows at accelerated pace. This means that, despite reallocation of market participation, all the operators register increase in the number of subscribers and consequently higher profits.

The examples for several countries point to dynamic growth in number of mobile telecommunications consumers with arrival of the third operator.

- In late 1999 the third operator entered the Hungarian market. This entry brought about significant increase in the mobile telecommunications users, leading to the growth of market penetration from 17% in early 2000 to 30% at the end of the same year. In the late 2001 market penetration reached almost 50%, i.e. the total number of consumers was 4.4 million by the end of November 2001. It is an increase by 30% relative to the end of 2000. By mid-2001, the number of mobile telecommunications consumers exceeded the number of fixed telephone lines, which contributed to the increase in number of the existing operators' subscribers. Thus, the number of subscribers at one of the existing operators, *the Pannon*, rose from 600,000 to over 1.2 million, i.e. it almost doubled throughout 2000.
- The third operator in Belgium appeared in 2000. In the course of that year the total number of mobile telecommunications consumers in Belgium rose by 75%, reaching the market penetration level of 56%.
- In Austria, the third operator started doing business in late 1998. In the next year, the total number of mobile telecommunications consumers amounted to 4.2 million, displaying an increase of over 2 million relative to the figures in late 1998. The level of market penetration in 2000 was 75.6%, while in the course of 2002 it rose to 83.1%, putting Austria on the third place by the market penetration level in Europe (behind Italy and Portugal).
- Although the third operator in Switzerland entered the market as late as in mid 1999, the number of subscribers increased by 80% (to over 3 million) in that very year; market penetration rose from 23% to 43%, the number of mobile calls increased three times, while the number of calls per consumer was up by 70%.
- Portugal experienced similar situation. In the year when the third operator entered the market (1998), the number of subscribers doubled relative to the preceding year, and kept on growing at very dynamic pace.
- The third operator entered the market in Italy during 1998, prompting the increase in number of subscribers by 48%.

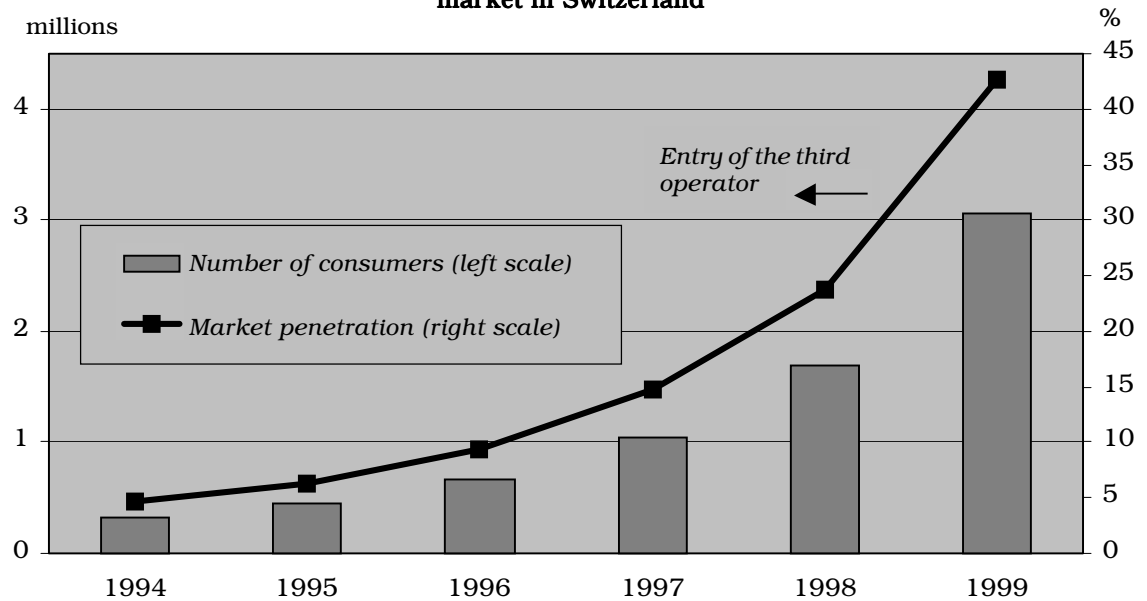
There is a strong connection between penetration at the mobile telecommunications market and the extent of competition present there. That connection is stronger than any other factor, including the GDP per capita. Even in the countries with very low GDP per capita and low population density, a significant increase was achieved in the number of mobile telecommunications consumers per 100 inhabitants resulting from stronger competition. Furthermore, impact on the market penetration level becomes obvious not when the new operator starts doing business, but at the moment when it is announced that stronger competition is allowed. The growth in

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***The third operator -
larger number of users***

Number of consumers and market penetration level on the mobile telecommunications market in Switzerland



number of consumers per 100 inhabitants was very significant in the countries such as the Czech Republic, where that number tripled in less than two years, and Spain, when it increased 3.5 times since the third operator entered the market in January 1999.

The studies also show that in the countries with liberalized mobile telecommunications market, the number of users per 100 inhabitants grew at least two times faster than in the countries which have not liberalized their markets yet.

Impact on the economic growth

Growing competition in the telecommunications sector attracts new domestic and foreign investments. The World Bank study estimates that the multiplier in the telecommunications sector in the first year is valued at 1.4, as compared to the energy production sector, in which the multiplier ranges between 1.2 and 1.3.

Increased investments in telecommunications have an evident positive impact on efficiency in other dependent sectors, which eventually boost the overall economic growth. According to the analyses, in both developed and developing countries, at the same level of total economic investments, a transfer of production resources from other economic sectors to the telecommunications leads towards the total GDP growth in the country. At the sample of seven countries, the annual growth in total tax revenues which resulted from liberalization of telecommunications market averaged 3.7%. Furthermore, the total volume of telecommunications services turnover at the international level increased as well, growing by about 6.2% per year on the average.

Employment

In developing countries, an attempt to increase the number of mobile telecommunications consumers per 100 inhabitants, stimulated by growth in competition, creates more employment opportunities related to the construction and building of the network.

Mobile operators employ between 700 and 2,000 employees with full employment (experts, but not consultants). In the structure of employment per department, the largest share makes those employed in department for providing services to customers. Relatively large share of the employed work in general and administrative services, engineering and sale departments, while the share of those dealing with marketing, information and information technologies is fairly lower.

The aforesaid indirectly indicates that the structure of employment at mobile operators is largely diversified, but at least one-fifth accounts for the highly-educated personnel specialized in this kind of work.

Experienced operators in particular employ almost exclusively domestic labor. This is very important for the countries experienced with mobile telecommunica-

tions, such as Yugoslavia. Namely, a share of consultants and other associates who are not local gradually decrease, while the number of local employees grows month by month.

In Hungary, for example, a year after the third operator entered the market (that is, throughout 2000), over 1200 people were employed at one of the existing operators, *the Panon*. About 2/3 employees took part in some professional, general training or foreign language course, 30% of employed used *the Panon's* support to acquire higher education, while the average number of training days per an employee increased to over 13. A number of subscribers per an employee increased by more than 40% (from 660 in 1999 to 971 in 2000).

The benefits for consumers

Probably the most obvious impact of increased competition at the mobile telecommunications market is eventual decrease in prices. Thus, in 1999 in Lebanon, which used to have the strongest competition at the mobile telephony market among all countries in the Near East and Northern Africa region at the time, one-minute call cost 7 cents, as compared to 40-50 cents which was the average in other countries in the region.

Another factor, which, together with growing competition brought about high growth rates at the mobile telecommunications market, is creation of innovative and flexible pricing patterns which in the best way satisfy the needs of consumers without asking them for paying the services, they do not use. The most usual one is the pre-paid, introduced in 1995.

The new pricing patterns in Italy, created after the entrance of the third operator in 1998, enabled the consumers to make telephone calls in particular parts of the day at the prices that are competitive or even lower than those in fixed telephony. Entrance of the third operator resulted in significant drop in prices of mobile services. These prices in Italy are lower than the European average, with continuing downward trend. Thus, in 1999 the average price was down by 10%.

The important fact is that growing competition at the mobile telephony market imposes competitive pressure on the fixed telephone line operators, too. It was shown that they are also ready to reduce prices and increase the level of their services in that case. Thus, for example, after entrance of the second operator in Estonia and Romania, the number of fixed telephone lines increased.

Competition reflects in many other fields, too, not only in terms of prices and range of services offered by the operators. The quality of signal is improved; the operators subsidize prices of mobile telephones and offer better coverage of the territory, etc. Increased competition at the mobile telecommunications market imposes the pressure on the fixed telephone line operators to reduce their prices, increase the offer and innovate.

Impact on mobile operators

The whole market continues to grow even after the third operator enters. In many cases there was an increase in market growth rate. Actually, while the new operators will, through aggressive reduction in prices and implementation of new services, probably succeed to attract some consumers of the existing operators, those existing operators will respond adequately and attract new consumers.

Competition at the mobile telecommunications market proved to have indirect impact on development of fixed telephony, since in the countries with higher degree of competition, there were penetration at the fixed telephony market, too. The announcement of stronger competition is sometimes enough to motivate the existing operators (both fixed and mobile telecommunications) to extend their networks, increase investments and level of offered services. In Switzerland, for example, when the third operator entered the market in 1999, the level of investments in mobile network development increased 3 times, but fixed telephony network also developed, resulting in network investments growth by 25%.

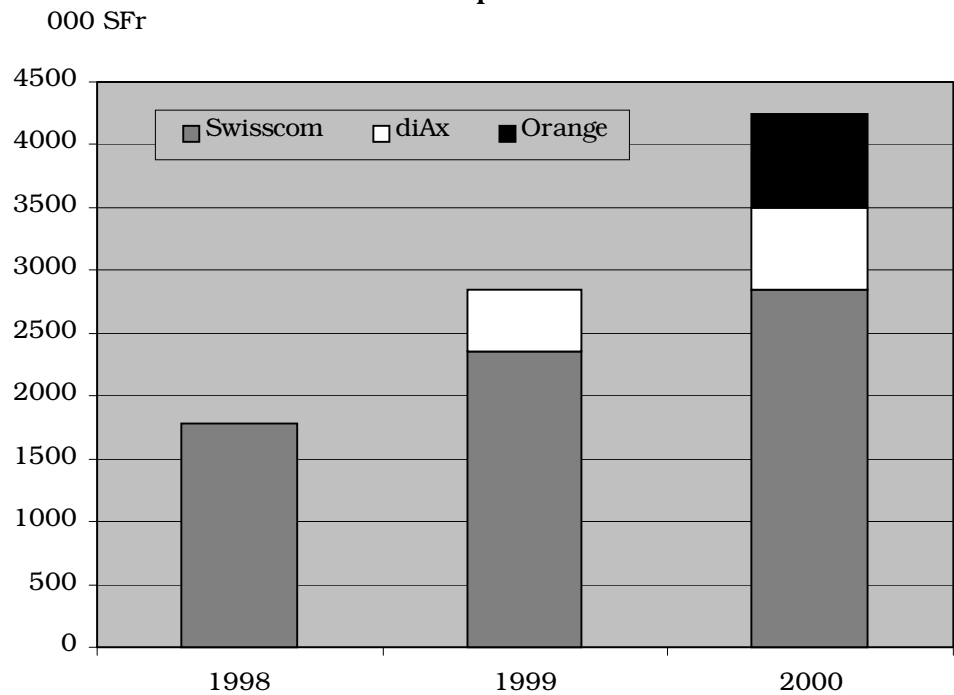
Mobile telecommunications contributes to improvement in the telecommunication sector, which is especially significant wherever fixed telephony is not sufficiently developed.

Competition has positive impact on the existing operators too, including growth in profits and profitability.

The more the operators, the greater the employment opportunities

Competition - better quality of services and lower price

Profits of the mobile operators in Switzerland



Thus, the initial operator in Spain, when the new competitor entered (the second operator), achieved the profit growth by 72%, while the profit rate was up by 16% (in the preceding year, the profit growth was 31% and profit rate increased by 8%).

The Results of the Market Survey about the Enterance of the Third Operator

Sample

The survey was conducted in 66 towns on the randomly selected sample. The sample was determined in two phases: in the first phase, by the method of random numbers, the municipalities in Serbia in which the survey will be carried out were chosen. Secondly, by the method of random step, the respondents on the field were chosen. Out of 2.200 questionnaires sent out to the field, 2,105 were returned as filled. The supervisors of the poll team estimated 1,896 questionnaires as valid for statistical processing.

The mobile telecommunications users

The data of the number of mobile telecommunications users may appear as confusing at first: even 54% of randomly selected respondents confirmed to use the mobile telephone. This figure is much higher than the number of mobile telephone owners and suggests that many potential users use the same telephone set or number within their household or that it is about the office mobile telephone.

The largest number of the mobile telecommunications users is situated in Central Serbia, Belgrade and Vojvodina, while the smallest is in the least developed areas of South and East Serbia. Larger number of users is situated in urban areas, although the rural area does not lag behind much (51.6% users). Men still dominate in mobile telecommunications consumption, while the share of female users is considerably lower. The potential users should be sought among women, as well as in other groups (children and the youth, the elderly, particular professions, etc).

There is a very significant difference of mobile telecommunications consumption in respect of age of the respondents. The younger are advanced, in particular those between 19-24 (over 72% users in this age group), while the percentage of consumption drops under 50% among the respondents over 50.

The potential mobile telecommunications users

There are noticeable differences among the non-users in different regions, considering how much they are ready to pay for particular items and services of mobile telecommunications consumption. The general conclusion might be the following:

- They are ready to pay less for the telephone set compared to the average price of telephone set in regular sale;
- They are ready to pay less for the telephone number compared to anything offered within any usage package at any operator's at present;
- They are ready to pay actual price of the mobile telephone call.

These attitudes point clearly to the major barriers for future extension of number of mobile telecommunications consumers in the upcoming period.

In their answers, the respondents ranked the barriers for mobile telecommunications consumption, replying explicitly to the question why they do not use this kind of service: the most of respondents said it is because the price of telephone set (26%), followed by expensive usage in general, etc.

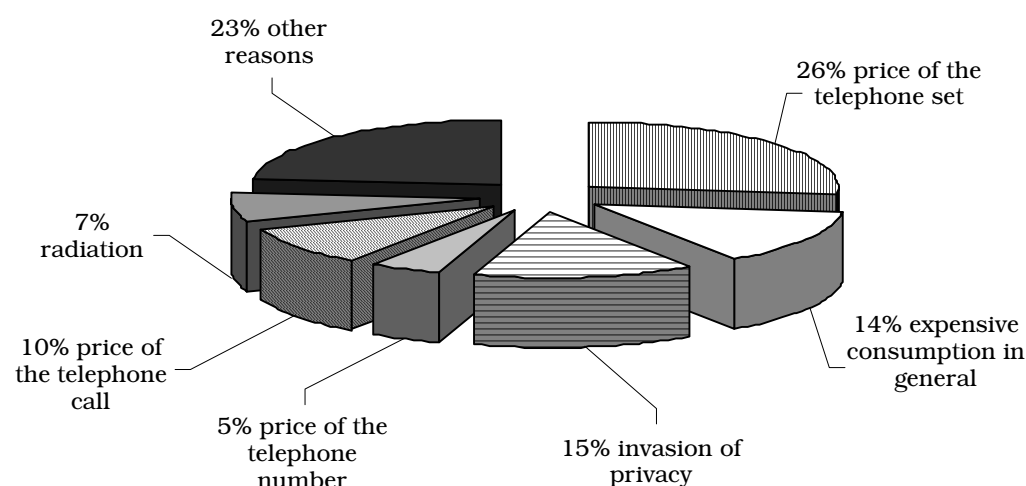
Over the half of the polled non-users stated some price barriers as a reason for not using the mobile telephony services. Radiation (7%) and invasion of privacy (15%) are the only non-price barriers, but their significance is rather low.

There are not many of those who used to use the mobile telephone and then stopped (12% of present non-users). The most frequent reason is that they had to return the number to the employer after changing the job. These former users are potentially the most favorable group for conversion into the restored mobile telecommunications users.

Intensions of the non-users (potential demand)

A half of the mobile telecommunications non-users intend to change that situation: 17% intend to purchase a mobile telephone in the course of this year, while the others in next two years at latest. Despite of saturation of younger categories of population (at age of 19-29 in particular) at the first sight, since the data indicates high extent of consumption in these segments, the potential demand for mobile telecommunications services among them is still high. Namely, out of the potential users aged 19-24, even 36% of the polled non-users intend to purchase a mobile telephone in the course of 2002 (which is 9.9% of the total population aged 19-24).

Why do the respondents not use the mobile phone?



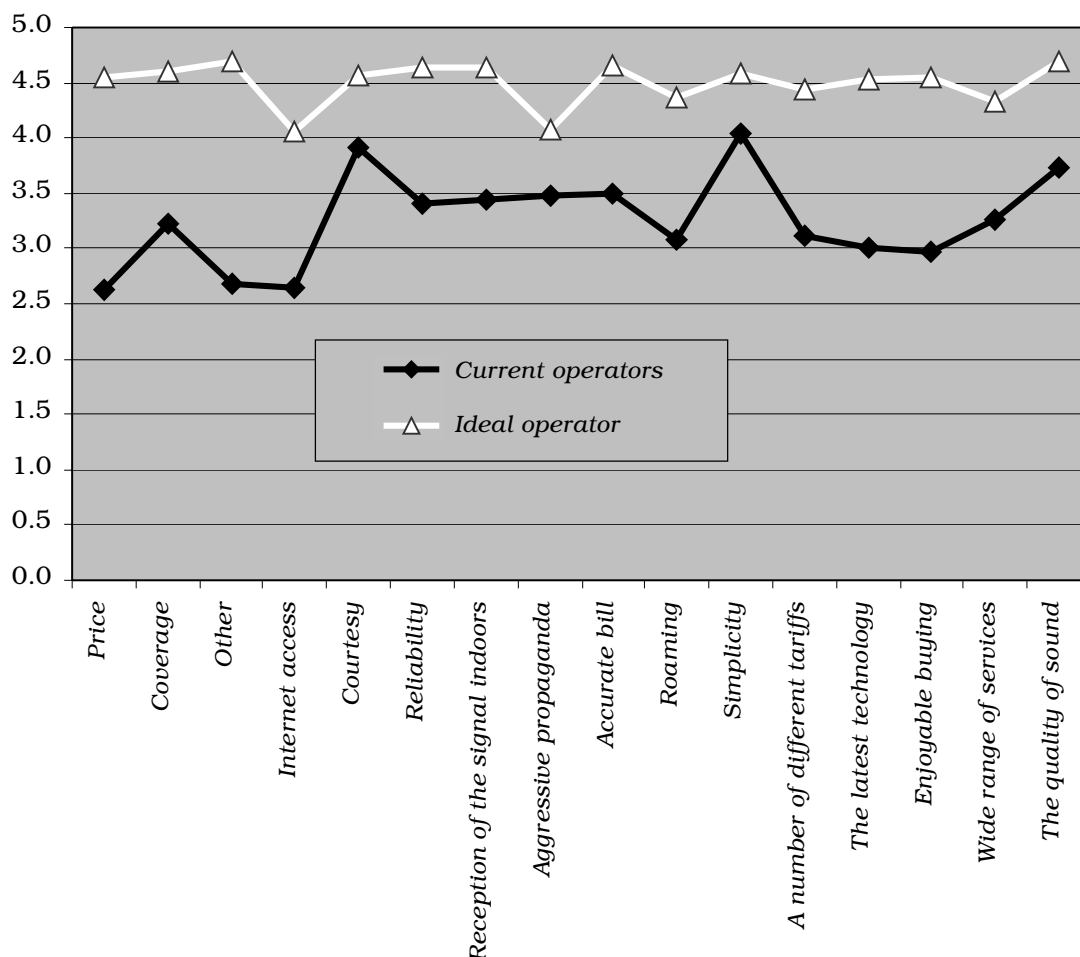
The category between 14-18 has potentially the largest number of new users in 2002, if the total population of this age is considered (almost 14%), which is nearly 33% non-users in this age group. Population over 60 is rather uninterested in purchase of mobile telephone.

General opinions on the current operators

The mobile telephony users were given the statements through which the extent of their content with the current situation was assessed by gradation. Although in

their first answers they stressed their content with the current operators, a large number of respondents (especially those who use the *MOBTEL* - over 50%), claim that they chose that operator due to the lack of choice. When they were asked if they would change their operator in the current situation, due to limited choice about 1/4 of them said they would, but if the third operator was included, over 60% affirmed the statement "I am looking forward to the third operator".

Evaluation of the current operators



In the view of the answers given by non-users, who are the major direction of market development, there is a devastating fact for the current operators: only 39% give preference to some of the existing operators, while as much as 34% resolutely insist that those operators work everything in mutual agreement.

The degree of content of the users with services provided by the current operators

Domestic consumers are pretty tolerant and accept numerous problems calmly and determinately. The tolerance, however, has its limits - 46.13% of the polled users is not content with the prices of the operators, i.e. only 23% are content, while it should be kept in mind that here are a lot of them who use the business telephone (provided by the companies they work in) and thus are indifferent toward the price. Also, less than a half of users is content with the mobile telephony network.

Rural population is less content with the network than those who live in urban areas. Also, the extent of discontent with the work of current operators is generally higher in less developed areas than in developed part of the market (Belgrade and Vojvodina).

On the question: *What should be improved in the current functioning of the mobile telecommunications?* the largest number of the polled stressed the importance of improvement in prices:

- Even 82.23% estimated reduction in prices as important;
- About 2/3 of the polled asked for the wider range of tariff packages which would enable them to use the mobile telephony services more rationally.

The existing operators leg behind the ideal one - the respondents want the third operator

- The same percent thinks that the control of usage of operators' services should be facilitated, which implicitly indicates the doubt in correctness of their telephone bills.
- Finally, about 2/3 of the polled is interested in purchasing the telephone set on leasing, which could be the way for overcoming the initial barrier for usage.

Apart for requirements related to prices, about 4/5 of respondents think that the territorial coverage should be improved.

Evaluation of the existing operators

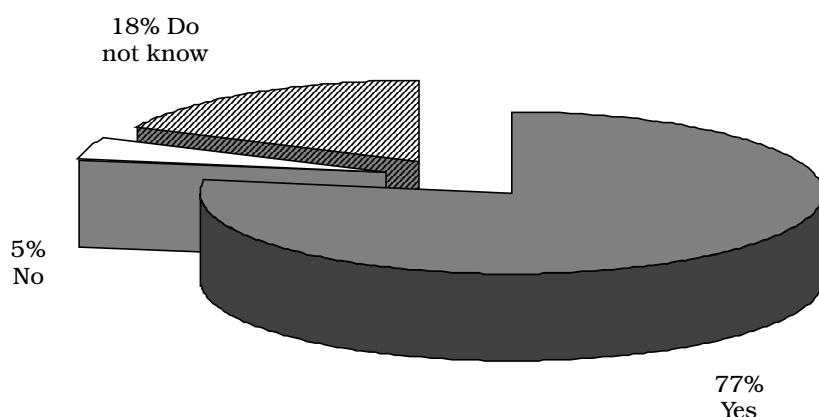
The respondents evaluated the existing operators, coupled with the imagined "ideal operator". They were suggested not to give all the highest grades to the ideal operator (on the scale 1-5), but to use their grades to evaluate importance of particular performances. The grades below 5, given to the ideal operator, indicate that particular services are considered less important. The services which our respondents marked as less important at present are: propaganda activities of the operator (which is expected), access to the Internet (which is to change) and a wide range of offered services.

With regard to all the characteristics, both operators lag behind the ideal one. The summary evaluation of both operators indicate that the users are less satisfied with prices, access to the Internet and modern technologies, number of tariffs and enjoyable buying, that were evaluated with the lowest grades, which certainly leave space for considerable improvements.

The respondents expectations with regard to the competition in mobile telephony

The respondents' answers show that there is a very favorable climate and great wish for establishment of (the real) competition in this area. Over 70% of respondents expect improvements related to reduction in prices of services (77%), facilitated communication (74%), increase in professionalism (71%) and positive impact on the way the current operators work (78%). Over the half of respondents think that stimulation of competition in this field would contribute to growth of national economy (57%), while only 14% claim that this would not be a case. The evaluations are even better with regard to the transfer of new technologies (3/4 of respondents has positive expectations, while only 4% negative), as well as in terms of increase in employment opportunities (expected by as much as 83%). In accordance to expectations related to increase in employment opportunities, even 50% of respondents expressed readiness to work in this field. On the concrete question: *Whom would you work for?* even 29% respondents said: *for the new operator* (even if they do not know who it would be), while only 21% chose the current ones.

Expectations of the users: would the new operator reduce the prices?



The respondents are aware of the fact that some things are not developing in the way they should have. Thus, on the statement that the issue of competition has been underway for a while, even 37.4% respondents said that someone obstructs it on purpose due to some interests, 9.2% went even a step forward, claiming that someone should be called to account, which, coupled with additional 28.7% respondents who are not satisfied with the speed of resolving the problem and think that it could be done much faster, make over 3/4 respondents who are not satisfied with the way and speed of resolving the problem of mobile telecommunications.

Macroeconomic Review

Prices

Kosovka Ognjenovic, M.Sc.

Wages and pensions

Jelena Momcilovic

Iva Jovanovic

Labor market

Jelena Momcilovic

Industrial production

Aleksa Nenadovic

Foreign trade

Aleksandra Brankovic

Monetary and fiscal policy

Scepan Jojic

Further Growth of Foreign Currency Reserves

Prices

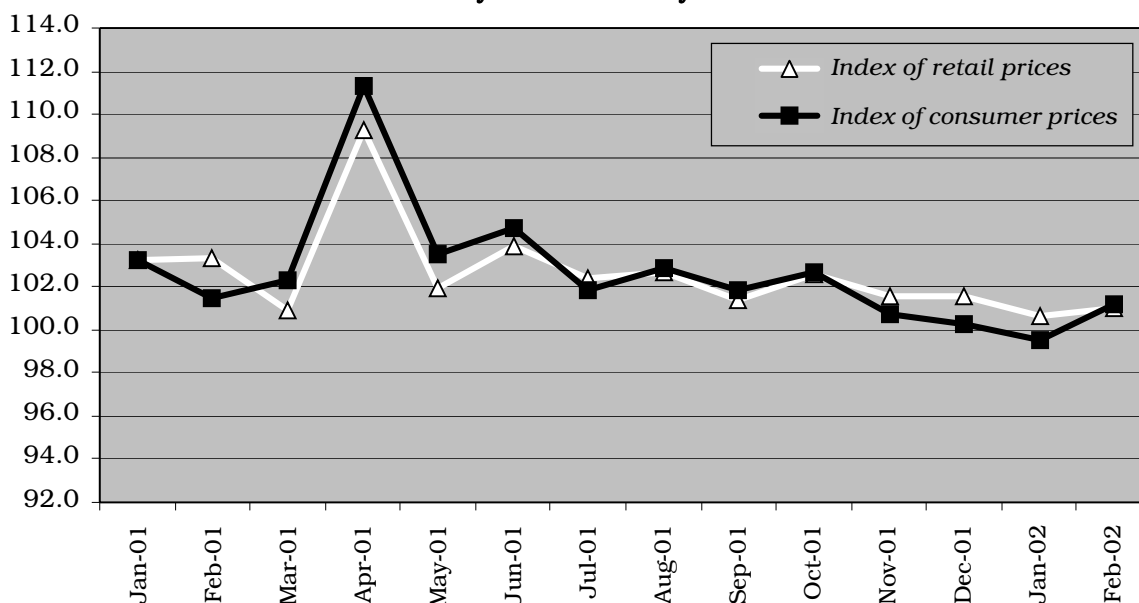
Retail prices in Serbia in February were up 1% on average relative to the previous month, or 1.6% compared to December. Year-on-year retail prices increased 28.9%. Faster pace of growth in price of services than in price of goods continued in February, while industrial producer prices rose at slower pace compared to price of agricultural products. Price of services in February rose by over 50% year-on-year. In the same period, price of goods increased by 23.4%. Price of agricultural products was up 27.3% relative to the same month previous year, while industrial producer prices rose by 23.3% over the same period.

After faster growth in retail prices at the end of last year and in January, consumer prices grew at faster pace in February and were up 1.2% on average. This growth mainly resulted from increase in price of housing (running water, garbage collection, heating), services related to education (monthly payments for students' and pupils' dormitories) and traffic services (passenger rail traffic). Year-on-year consumer prices in February rose by as much as 68.2%. Price of goods in February was up 26.5% year-on-year. The dynamics of retail and consumer prices in the

upcoming period are hard to project, but it is clear that consumer prices will grow faster due to adjustment of disparities in prices of public utilities and electric power.

After the January fall of 0.1% on average, industrial producer prices growth rate in January averaged 0. At the same time, industrial production in February registered growth relative to the previous month, but year-on-year comparison indicates a decrease

Chain indices of retail prices and consumer prices in Serbia
January 2001 - February 2002



in volume of industrial production. If changes in producer prices are examined by destination of consumption in February, only prices of consumer goods increased, while prices of capital and intermediate goods fell relative to January. Similar trend in changes of these products is present relative to December 2001. The data on dynamics of growth in industrial producer prices according to the *Classification of economic activities* in February point to decrease in prices in the section of quarrying and mining by 5.1% which resulted from considerably lower prices in the field of extraction of crude petroleum and gas, service activities. Prices in manufacturing in February grew by 0.3% on average, while the largest growth was registered in production of food (0.6%), manufacture of chemical products and fibers (1.1%) and in manufacturing n.e.c. (2.4%). Lower prices were also registered in the fields of manufacture of wood and wood products and manufacture of other mineral products (-0.7%), in production of metal and metal products (0.6%) and production of other machinery and equipment (-0.2%). Textile producer prices and prices of producers of transport equipment stagnated in February.

Wages and Pensions

The average net wage in February (11,275 YuD) was up 4.66% relative to the previous month and 14% relative to the gross nominal wage average in the period

June - December 2001. Nominal net wage in February was 7.926 YuD, registering growth of 6.6% month-to-month. As compared to the average of the last six months of 2001, nominal net wage increased by 13%. With regard to the 1.2% growth in costs of living, real net wage in February (deflated by chain cost-of-living index), increased by 4.8%. Since there are no statistical data for the value of consumer's basket in February, our estimation on the basis of food-costs index indicates that the ratio of the estimated value of consumer's basket to the nominal net wage was 1.4. Net wage in economic activities in February was up 7.64%, while in non-economic activities it increased 3.85%.

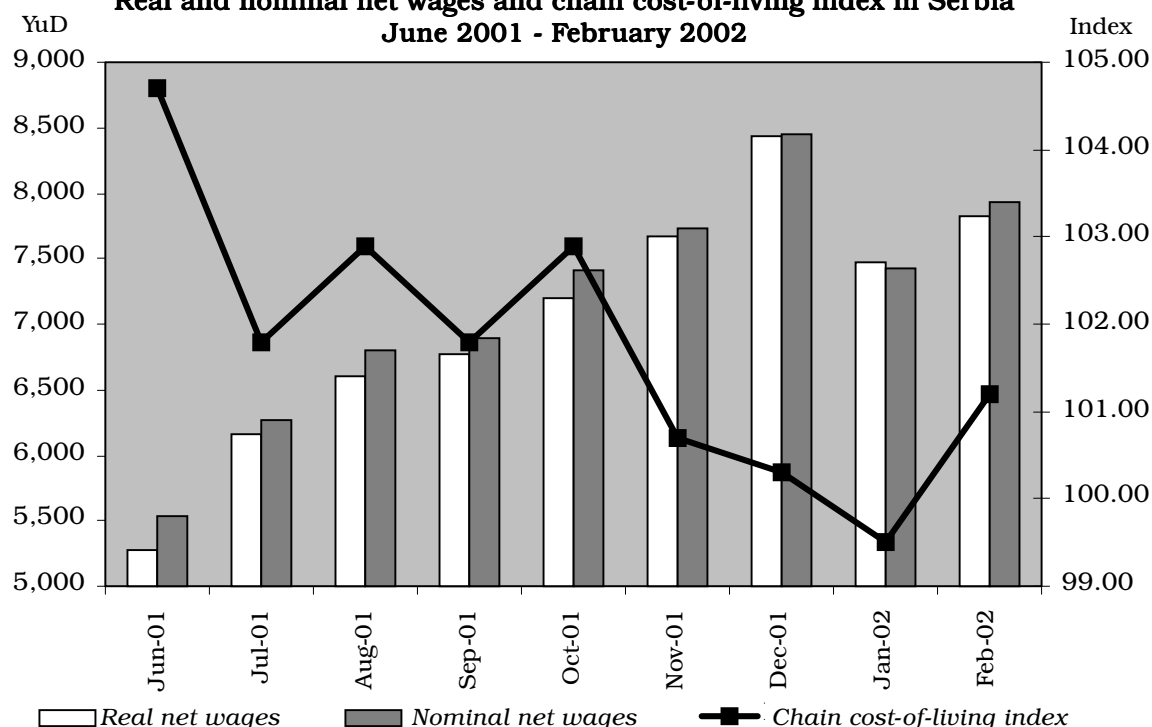
The average nominal pension paid out in February was 6,785 YuD, which is up by 13.46% relative to January. It amounted to 85.6% of nominal net wage paid out in February. The pension paid out in February increased 12.12% in real terms month-on-month, while the cumulative growth was 16.9% relative to December. Owing to that, standards of living of the pensioners tend upward, which is also proved by the change in ratio of consumer's basket to the average pension; this ratio in February was 1.62.

The average pension in Serbia will remain at the same level in January, February and March, amounting to 5,970 YuD.

In the course of February the population received a total of YuD57.9bn. The total amount nominally increased by 15.8% relative to the previous month. The largest share of this sum was paid out on the basis of gross wages, being nominally up by 17.4% compared to January, followed

by payments on the basis of products and services which increased 11.5%. On the other side, the total of YuD35bn was collected from the population. The value of realized products and services significantly grew (19.2%) as well as the amount of contributions from net wages, pensions and other contributions from personal income (10.5%), while the amount of collected taxes, contributions, various fees and customs duties nominally dropped by 12.5% relative to January.

**Real and nominal net wages and chain cost-of-living index in Serbia
June 2001 - February 2002**



Indicators of the current standards of living of pensioners

	Average nominal pension	Ratio of average pension to average wage	Ratio of consumer's basket to pension	Chained index of average pension	Chained index of the consumer's basket value
06/01	3,907	70.7	2.93	105.5	
07/01	4,111	65.6	2.74	105.2	98.29
08/01	4,314	63.4	2.69	104.9	103.26
09/01	4,727	68.5	2.53	109.6	102.92
10/01	5,236	70.7	2.27	110.8	99.18
11/01	5,548	71.8	2.18	106.0	101.71
12/01	5,765	68.2	1.97	103.9	93.93
01/02	5,980	80.4	1.83	103.7	96.54
02/02	6,785	85.6	1.62	113.5	100.2*

* Value of the consumer basket estimated on the basis of food price index.

Labor market

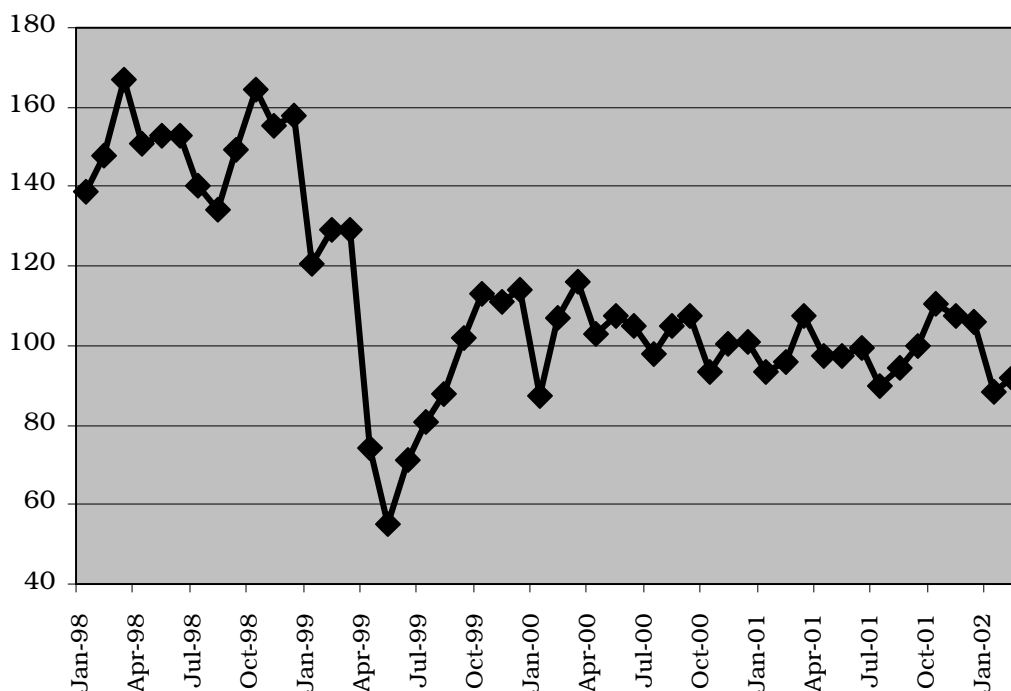
Number of employed in socially-owned sector in Serbia in February decreased by 0.5% relative to the previous month and by 4.4% year-on-year. Employment in private sector was up by 12.6% while in small enterprises it rose by 6.4% year-on-

year. Unemployment rate in February was 27.86% as compared to 26.58% in February 2001. Number of unemployed in February reached 796,000 persons, displaying an increase by 5.8% year-on-year. In the unemployment structure on the basis of qualifications, the largest share goes to unskilled labor, amounting to 32.52% of total unemployment. Semi-skilled unemployed and those of lower professional education made 26.61% i.e. 28.29% of total unemployment respectively in the same month. Women made 55.5% of total unemployment. Fluctuation in the period January - February (direct transfer from post to post) in total new employment made 33.06%, displaying the projected mild increase relative to the same month last year, when fluctuation amounted to 31.68%. Fluctuation share is projected to continue growing, simultaneously with acceleration of structural reforms and privatization. Employment of trainees and junior stuff registered at the Republic Bureau for Labor Market in the period January - February was 66.94%. Number of free posts in the analyzed period was up by 3.3% year-on-year.

Industrial production

Industrial production in FR Yugoslavia in February, after the growth registered in November and December 2001 and fall in January 2002, increased by 4.2% month-on-month. Due to stoppage in restrictions of electricity, industrial production in Montenegro increased by 13.3% relative to January, when it was down 33.8% compared to the previous month. Industrial production in Serbia rose by 3.8% due to 7% increase in Central Serbia, while in Vojvodina it showed a drop by 2.7%. Growth at the FRY level was contributed by the sections of manufacturing (by 10.6%), and mining and quarrying (by 3.1%), while the third section, electricity, gas and water supply was down by 11.9%. A field of mining and quarrying except energy production material rose by 75.5%, while the field of other mining and quarrying was up by even 133.1%. As for manufacturing, the largest growth was registered at manufacture of wood and products of wood (40.7%), while production of coke and refined petroleum products decreased by as much as 11.7%. Industrial production in FRY in February was down 4.9% year-on-year. Year-on-year growth was registered only in the sector of mining and quarrying (6%).

Industrial production in Serbia, 2000 = 100



Industrial production in Serbia was up 3.8% relative to the previous month, but at year-on-year level, it decreased by 4.7%. Quarrying and mining and manufacturing, which make 80% of total industrial production, registered a growth by 0.7% i.e. 9.9% respectively, while electricity supply decreased by 11%. Compared to the same period last year, industrial production in the first two months of 2002 shows a drop by 4.7%, while only the section of mining and quarrying displays mild growth of 0.3%. As for industrial production by destination of consumption, all three groups registered growth in February: capital goods by 28%, intermediate goods by 3.6% and consumer goods by 1.9%. The following industries registered the highest growth on the basis of year-on-year comparison:

production of petroleum and petroleum products (154.6%), shipbuilding (60.7%), fodder production (28.2%) and production of rock, gravel and sand (40.3%).

All three fields of production by destination of consumption in Central Serbia registered a growth relative to the previous month: capital goods by 38.8%, intermediate goods by 8.7% and consumers goods by 1.4%. According to the *Classification of economic activities*, the sectors of mining and quarrying and manufacturing increased by 1.5% and 17.8% respectively, while the section of electricity, gas and water supply decreased by 8.3%. The following fields of manufacturing increased: manufacture of wood, wood products and cork excluding furniture (59.7%), manufacture of pulp, paper and paper products (23.4%) and manufacture of chemicals and chemical products (28%). Within the same section, production of tobacco prod-

ucts dropped by 0.19%. Fall in production was also registered in manufacture of leather, leather products and footwear (4.3%) and manufacture of precision and optical instruments (3.6%), but these are the fields with small share in total industrial production.

All three sections decreased in Vojvodina relative to the previous month: mining and quarrying by 2.2%, manufacturing by 0.02% and electricity, gas and water supply by 68%. (However, compared to the same month last year, this section is up by 48.1%). Manufacturing encompasses over 95% of total production and displayed a slight fall. Its largest field, food and beverage production increased by 0.9%, while the second largest field, production of chemicals and chemical products was down by 5.4%. As for production by destination of consumption, capital goods dropped by 3.7%, intermediate goods by 6.8%, while consumer goods increased by 2.7%. In terms of year-on-year comparison, production of capital and consumers goods decreased (by 2.9% i.e. 10.7%), while intermediate goods grew by 0.3%.

Foreign exchange

According to preliminary data on foreign exchange value in February, commodity exports are valued at US\$136m, which is up 4% compared to the same period last

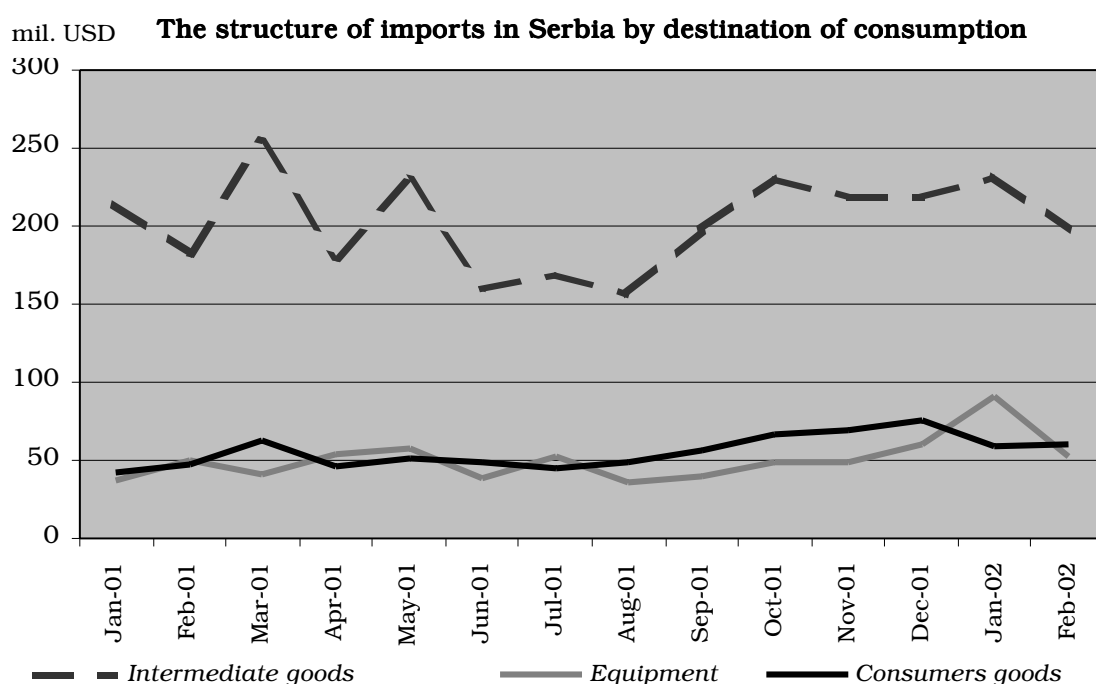
year (measured in nominal US\$). The data for Serbia only are even more favorable, since Serbian commodity exports were up 8%. Commodity imports are valued at US\$341m, being down 18% year-on-year (value of commodity imports in Serbia decreased 12%). The total FRY foreign trade deficit, accordingly, is US\$205m. Although the foreign trade deficit in 2002 is projected to be up by 17% relative to 2001, in the first two months of 2002 it was almost 7% lower compared to the same period last year.

Downward trend in commodity imports in February (i.e. its stagnation in the first two months of 2002 year-on-year) and decrease in foreign trade deficit could appear as worrying. Namely, when it is about the structure of imports, it may be observed that imports of intermediate goods in Serbia at the beginning of the year fell by 12% year-on-year (In February it dropped by as much as 20%). On the other side, imports of equipment largely stagnate, while imports of consumer products rose by almost one-fifth. It follows that the share of non-productive imports grew, which might be one of the reasons for decreased volume of industrial production in the analyzed period. The import trends in the upcoming period are hard to project, but the given data imply that eventual deceleration in its growth rate should not be a surprise.

Similar impression comes about from the analysis of foreign exchange on the basis of international trade classification. For example, considerable decreases in imports of metal ores (by over 80%), coupled with fall in their domestic production are the key reasons for lower volume of industrial production and exports of metals. Compared to the first two months of the last year, steel and iron exports are down 35% while the exports of non-ferrous metals decreased 45%.

Positive trends are noticeable in some other fields. An increase in imports of machinery and transport equipment was largely related to telecommunication equipment, electrical appliances and computers, meaning that domestic companies increasingly invest in acquisition of modern information technologies. Exports of food and live animals, as well as chemical products (especially plastics) recovered evidently.

After two-month appreciation, the exchange rate of Dinar against Euro depreciated in February, which resulted from higher demand for foreign currency and especially outstanding was the demand for conversion of DeutchMark into Euro. Meas-



ures for further liberalization of foreign exchange market are announced, together with establishment of external convertibility of Dinar, which should enhance the thrust in domestic currency and largely facilitate financial transactions with foreign countries.

A significant increase in purchase of foreign currency in February is one of the reasons for further growth in foreign currency reserves of the National Bank of Yugoslavia and authorized banks. An increase in the net influx of total hard currency reserves in February almost doubled as compared to the January growth (by over US\$180m).

At the end of March, a new three-year credit of about US\$800m was principally agreed with the IMF mission and is to be approved by the Executive-Directors Board in May. This is a document of complex importance, considering that it represents a framework for implementation of further reformist measures, while the agreement itself stands as one of the conditions for 51% write-off of the debt to the Paris Club of creditors (while another 15% will be written off after successful termination of the agreement).

Monetary and fiscal policy

The money supply in February increased by 12.91% or YuD8.66bn, amounting to YuD75.4bn at the end of the month. The primary issue was based on crediting the budget of the Republic of Serbia in the amount of YuD2.1bn and foreign exchange transactions in the amount of YuD5.27bn. A significant growth of the real money

supply implies continuance of remonetizations process and increasingly high thrust in Dinar. The share of cash money supply in M1, which kept on going and reached 41%, does not stand as a positive trend since it leaves space for evasion of taxes.

At the end of February, the foreign currency reserves covered the money supply, with the coverage coefficient of 125.4%.

As of February 2, the NBY cut the discount rate to 1% per month. It brought about slight reduction of the interest rate on short-term securities at the Belgrade Stock Exchange. The monthly interest rate in February averaged

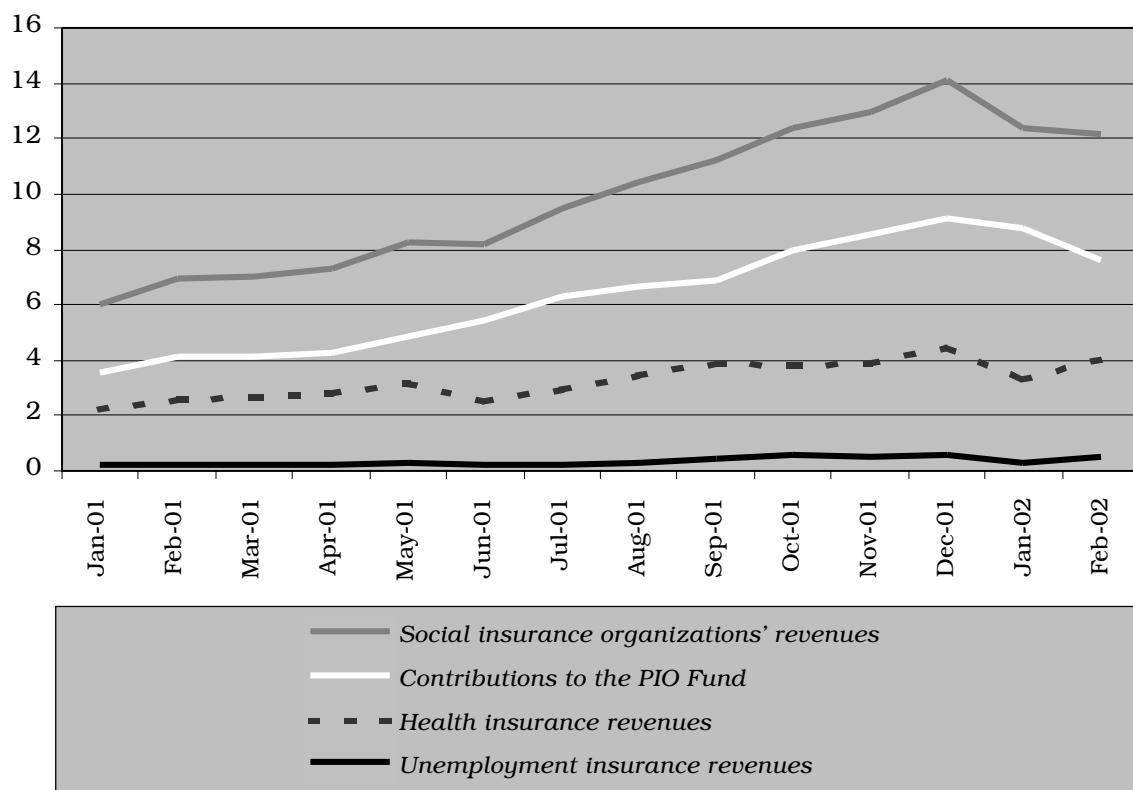
3.63%, while in January it was 3.71%. After the announced tax cut on financial transactions a considerable reduction of the market interest rate might be expected.

Collection of public revenues improved, too. The total amount of YuD35.9bn was collected, displaying a growth by 8.43% relative to the previous month. The revenues of the budget were up 4.92%, while those of social insurance organizations rose by 14.25%.

The revenues of social insurance organizations in February amounted to YuD12.17bn and are lower by 1.88% relative to January. This resulted from the fall in revenues of the PIO (Old-age pension and disability insurance) Fund contributions, which are down by 13.88% compared to January, while the most significant drop in their structure is registered in collection of contributions for the PIO Fund of employed which should have been paid by the employer (as much as 85.31%). The revenues from health insurance contributions are up 22.72%, as well as those from unemployment insurance contributions, which rose by 83.71%.

bn. YuD.

Revenues of social insurance organizations



Overview of Events and Activities in the European Union

As of this issue of the Economic Review, The G17 Institute Department for European Studies starts with releasing the overviews and analyses of current activities in the European Union. Due to complexity of the European Union as a specific regional integration which resists usual typologies, articles about the European Union have interdisciplinary character. This means that, depending on estimated relevancy and actuality of particular events in the EU, the articles will cover the following issues:

- Legal and institutional reform of the EU, i.e. issues of the future of the European Union;
- Relevant political issues with special emphasis being on relations between the EU and our country, as well as between the EU and associated countries of the Balkans, Central and Eastern Europe;
- Economic dimensions of the EU;
- Outlook at significant secondary regulations of the EU (relevant instructions, decrees, decisions and opinions).

In the situation when our country set association to the European Union as a priority, within active participation in the process of stabilization and association, and in terms of the forthcoming negotiations and entrance into bilateral Agreement on Association to the EU in particular, this supplement to the G17 Economic Review aims at providing a versatile insight in actual events within the EU, both in terms of interior and foreign affairs of the EU to the non-member states.

Within the framework so defined, the Department for European Studies will choose and assess the relevance of particular current activities. For the first addition, the following subjects have been chosen: overview on actual problems of the EU future (the Convention of the future of the EU) and the EU economic news in March.

The Future of the European Union

One of the essential and increasingly actual subjects of the EU functioning is the issue of institutional reforms aimed at improving efficiency of the Union, both in terms of interior and foreign policy. The Union faces the necessity of internal institutional reforms so as to simplify decision-making process, representation and number of Commission members in the enlarged Europe, as well as to resolve numerous other problems, which impose the need for answer to the question "Where does Europe go?"

At the EU Summit at the level of the member states Heads of State and Government in Leaken (Belgium) in December 2001, the decision was made on convening the Convention on the Future of the European Union, with task to pave the way for the next Intergovernmental Conference on the reforms of the EU. One of the main objectives of the Convention is to enable broad participation of EU member-states citizens in the public debate. The Convention will consider the key issues arising for the Union's development, for example:

- What do European citizens expect from the Union and how is the division of competence between the Union and the Member States to be organized?
- How is the division of competence between the institutions to be organized within the Union?
- How can the efficiency and coherence of the Union's external action be ensured?
- How can the Union's democratic legitimacy be ensured?

The Convention will open its proceedings with a period of listening (through the debates held on the Internet and in mass media in the EU member-states), in order to find out what people want and expect from the European Union. The second

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Tanja Miscevic, MA

Future of the EU
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Economic News
Dejan Gajic

Institutional reforms in the EU are necessary

Participation of the citizens of all the EU Member States in a discussion

Strong interest of the candidate countries

Complexity of the EU institutions

Creation of the socially accepted economic system in the EU

stage will be a period of analysis for comparing the pros and cons of the proposals put forward for organizing the European Union. The third phase will seek to draw together the different proposals and draft recommendations. The Convention Chairman will give an oral progress report at each European Council meeting.

The European Council has appointed a former French president Mr. V. Giscard d'Estaing as Chairman of the Convention and a former Italian Prime Minister Mr. G. Amato and a former Belgium Prime Minister Mr. J. L. Dehaene as Vice-Chairmen.

The Convention is composed of 15 representatives of the Heads of State or Government of the Member States; 13 representatives of the accession candidate countries (the Czech Republic, Poland, Hungary, Latvia, Lithuania, Turkey, Slovakia, Estonia, Slovenia, Bulgaria, Romania, Cyprus and Malta); 30 representatives of the national parliaments of the Member States; 26 representatives of the national parliaments of the accession candidate countries; 16 members of the European Parliament; 2 representatives of the European Commission. The Economic and Social Committee (EU constitutional organ) - three representatives, the Committee of the Regions (EU constitutional organ) - six representatives, the trade unions representatives as social partners (three representatives) and the European Ombudsman are invited to attend as observers. The Presidium of the Convention is composed of the Convention Chairman, two European Parliament representatives, two Commission representatives, two representatives of national parliaments of the member states and the representatives of the Governments of Spain, Denmark and Greece (countries holding the Council Presidency during the Convention).

The inaugural session of the Convention was held on February 28 2002 under presidency of Mr. H.M. Aznar, a Spanish Presidency of the European Council. On that occasion, the accompanying study documents were presented, which were made under the Committee for Constitutional Issues of the European Parliament for the discussion during the Convention. An analysis of the European University Institute in Florence on reorganization of the EU Treaty was underscored as significant, as well. A special emphasis was put on historical significance of the Convention for the future of the EU in the enlargement process. The Convention provides a unique opportunity for the European citizens to get closer to the "European construction" (EU), and therefore, the debate is underway at the national level of member states.

Representatives of the 13 candidate countries underlined their readiness to give an essential contribution to the public debate on the future of the Union during the Convention. In that context, they especially pointed out that they do not want to be organized as a special group, but to have at least one seat in the Convention Presidium. With regard to relationship between the Presidium (presidency) and Convention, the Presidium is to serve the Convention in the way that it would introduce various subjects for debate. In order to achieve as much transparency as possible and widest possible participation of all the layers of civil society in the debate, it was confirmed that the Convention Chairman, together with Vice-Chairman, is to send an open letter to all the significant European newspapers with explanations on tasks and methods of the Convention.

The following plenary session of the Convention of the future of the EU was held in Brussels on March 21-22, when Michel Barnier, a Commissioner responsible for Regional Policy and Reform of the Institutions, stressed that the EU institutions are complex and will remain that way. The Union will remain an original construction, in which organization and division of competences follows a complex logic. Nevertheless, it was estimated that there is a space for improvements in the field of decision-making democratization, decentralization and efficiency in the system as a whole.

An especially significant question is how to create an economic system which is to complete introduction of a common currency and be socially accepted. In that sense, fiscal dimension must not be neglected any more since EU economy requires collective management. Consequently, the reform further develops toward transformation of the EU in order to create it as a significant political factor, not only the economic giant.

Complexity of the forthcoming reform of the European Union prompted many participants at the Convention, including the EU Commissioner for Justice and Interior, Mr. A. Vitorino, to wonder if this very moment is the "moment of truth" for the Union. In particular, the major challenge of the EU reform refers to the need to maintain a degree of internal integration with still present classic comprehension of sovereignty of the member states. In such context, it was stressed at the Convention that the integration model only, and not simple cooperation among the states, enables the EU members to maintain their sovereignty, at the same time respecting their diversities. Therefore, adoption of the basic constitutional principles of the EU was suggested, which is to be common for all the member states which should create a basis for the upcoming constitutional and institutional reforms in the Union. It is about the following principles: freedom and democracy; respect for human rights and basic liberties as the ultimate value for the EU political actors; the rule of law; respect for national identities which are the genuine source of the EU power, and finally, agreement on instruments for attaining the jointly accepted objectives of the EU.

Economic News

According to provisional data issued from the Eurostat, the EU15 external current account recorded a surplus of EUR 7.5 billion in the fourth quarter of 2001, as compared with a deficit of EUR 20.4 billion in the fourth quarter of 2000 and a deficit of EUR 0.8 billion in the third quarter of 2001. In the fourth quarter of 2001 the EU15 external balance of trade in services recorded a surplus of EUR 1 billion relative to a deficit of EUR 1 billion year-on-year and a surplus of EUR 1.9 billion in the third quarter of 2001.

Shortly before the meeting of the EU and Mediterranean Trade Ministers in Toledo on March 19 2002, the Eurostat and the EC Statistic Bureau from Luxemburg presented a statistic report on trade relations and FDI flows of these two groups of states. The EU 15 and 12 Mediterranean countries (the Euromed) signed a Declaration designed to strengthen Euro-Mediterranean relations in Barcelona in 1995. One of the aims of the Declaration is to establish a Euro-Mediterranean free trade area by 2010. In 2000, the EU was the first trade partner for Mediterranean countries, which they exchanged a half of their total trade with, followed by the USA on the second place; whereas the EU exchanged 7.1% of its total trade with Mediterranean countries. Between 1995 and 2001, the EU imports from these countries increased by 110%, compared to the growth in the EU exports by only 49%. Trade exchange is dominated by energy products, industrial goods and machinery and transport equipment. While the EU recorded a surplus in trade in goods with these countries, trade in services displayed a deficit, primarily owing to traffic and tourist services. In the course of 1990s, significance of the Mediterranean region for the EU investors gradually increased, followed by investment growth by the average annual rate of 19%.

At the Euromed Trade Ministers meeting, the concrete steps towards trade and economic cooperation and integration of these countries were made. Mediterranean countries will be included in the pan-European cumulative system on the origin of products, which should allow simplified flow of goods among the EU, EFTA, Mediterranean and candidate countries, offer significant benefits and stand as a significant step forward in integration of Mediterranean countries, both mutually and with other partners. A working group was set up in charge of accelerating the process of regional integration of these countries, which took several concrete steps in that sense, aimed at deepening and implementing the existing bilateral and regional agreements on free trade among Mediterranean countries. The ministers decided to pursue further their strategy of developing concrete measures complementary to tariff dismantling aimed at achieving an effective Euro-Mediterranean Free Trade Area.

The European Commission will host a high-level conference on how to remove tax obstacles to business activity in the Internal Market in Brussels on April 29-30 2002. The conference is due to focus in particular on possible ways of achieving a single tax base for EU companies to use when calculating their EU-wide taxable profits. This would aim to avoid the current costly inefficiencies resulting from the operation of fifteen different sets of tax rules. In its October 2001 Proposal, the Conference identified several steps that should be taken in order to eliminate particular tax barriers to the internal trade, which is currently a subject to discussion of the Commission and member-states. To prepare for the conference, the Commission has launched a public debate so as to collect as many opinions as possible, which the Commission will take into consideration when creating the report and giving recommendations for the next year.

In the European Commission study which deals with agricultural sector of the countries - candidates it is concluded that membership of the European Union will significantly improve the prospects for farmers in the candidate countries, without creating major market imbalances for an enlarged Union. The study discussed four different policy scenarios: "no enlargement", "introduction of the Common Agricultural Policy (CAP) without direct payments", "CAP with direct payments" and "Candidate Country Negotiating Position". The simulation shows that even under the most pessimistic restructuring scenario, EU accession will have positive effects on the income of farmers in the candidate countries. The study also underscores the Commission's view that immediately paying 100% of direct payments would create significant social distortions and inequalities, and would hamper the necessary re-

**Current balance
surplus EUR 7.5 billion**

**Accelerated process of
regional integration**

**Conference on
removing the tax
barriers**

A unique consolidate tax base

structuring. These positive effects of EU membership can only be reaped if the necessary restructuring to meet EU production standards will be made out.

Speaking to the Farm Ministers of the EU15 and the 13 candidate countries, the EU Commissioner for Agriculture, Rural Development and Fisheries, Franz Fischler called on both sides to be realistic as regards negotiating objectives. In particular the candidate should shape their negotiation approach in a realistic way and not to raise false expectations amongst the farmers. He also stressed that constant insisting on 100% direct payments to the farmers is not a winning strategy, but the whole package offered by the European Commission should be considered as a basis for negotiations in terms of agriculture within the process of the EU enlarging. He further underscored that it is clear that the negotiating margins are narrow, but also presented 10 good reasons for the Commission enlargement strategy, which foresees massive rural development support, while phasing in direct payments over ten years up to 100% payments in 2013, full and instant access to all the measures of market protection provided by the Common Agriculture Policy, etc. Mr. Fischler also referred to results of the aforementioned study underlining that in any case the income situation of the farmers in these countries will improve significantly.

The full results of the first Eurobarometer opinion survey carried out in the 13 candidate countries were published by the European commission. This survey was conducted in October 2001 among more than 12,000 citizens from the 13 candidate countries.. The wide range of subjects covered included satisfaction with life, economic prospects, national pride and European identity, language skills and the EU enlargement process itself. Around 50 different questions were asked, many of them directly comparable with the standard Eurobarometer which has existed for the current EU countries for years. Some initial results of the survey were published on the Internet already in December 2001, while the complete results are available at the web address: http://www.europa.eu.int/comm/public_opinion

According to Eurostat, Euro-zone annual inflation fell from 2.7% in January to 2.4% in February 2002, while a year earlier rate was 2.3%. EU15 annual inflation decreased from 2.5% in January to 2.3% in February 2002, being 2.1% in the previous year. In February 2002 the highest annual rates were in Ireland (4.9%), the Netherlands (4.5%) and Greece (3.8%); while the lowest rates were recorded in Austria (1.7%), Germany (1.8%) and Luxemburg (2.2%). Compared with January 2002, annual inflation fell in 11 member states and rose in three. Compared with to February 2001, the biggest relative falls were in Portugal from 4.9% to 3.3%), Germany (from 2.5% to 1.8%) and Luxemburg (from 2.9% to 2.2%), while the biggest relative rises were recorded in Italy and Sweden (1.5% to 2.7% both) and France (from 1.4% to 2.3%).

According to Eurostat, in 2001 budget deficit in the Euro zone and EU15 member states prevailed, while the public debt ratio to GDP continued to improve. For the Euro- zone, the 2000 budget surplus of 0.2% was replaced with the 2001 budget deficit of 1.3% GDP, while for the EU15, the 2000 budget surplus of 1.1% turned into the budget deficit of 0.6% GDP in 2001. Several countries, however, continued to record surplus. In 2001, the largest government surpluses relative to GDP were in Luxemburg (5%), Finland (4.9%) and Sweden (4.7%), while the largest deficits were recorded in Germany (-2.7%), Portugal (-2.2%), France and Italy (-1.4% each). Public debt ratio to GDP in the Euro zone decreased from 69.5% in 2000 to 69.1% in 2001, and in the EU15 from 63.9% to 63.0%. This ratio fell in all the member states in 2001 relative to 2000, apart from Portugal and Sweden, where the public debt ratio to GDP rose from 53.4% to 55.6%, i.e. from 55.3% to 56.0% respectively.

According to Eurostat, the labor costs per hour in the Euro zone nominally grew by 3.1% in the fourth quarter of 2001 relative to the same period in 2000. In the third quarter labor costs increased by 3.5%. In the EU15 these costs rose by 3.1% in the fourth quarter of 2001 relative to the 3.6% growth in the previous quarter. With regard to the output only, labor costs in the fourth quarter increased by 2.7% in the Euro zone and by 2.8% in the EU15.

The EU Commissioner for enlargement, Gunter Verheugen welcomed the completion of the two negotiating chapters with Poland: taxes and free capital flows especially stand as a significant improvement. This chapter included some sensitive issues such as purchase of land and residence, which were the hardest both in terms of political and psychological sense in the former negotiations with Poland. The EU put great effort to meet special demands of Poland with regard to these issues, stressing that it is a way for the EU to show that it really treats each applicant country in a special way and expresses a huge hope that Poland would fully implement both agreed chapters.

Improvement in the position of farmers in the candidate countries

The Eurozone annual inflation rate - 2.4% in February